

Overview of the Budget Process

Nearly all policies and actions of the City of Wichita involve resource allocation. Central to the allocation process is the development of financial trends and the annual operating and capital improvement program budgets.

Customarily and as the budget development calendar on the preceding page indicates, the *Financial Plan* has been prepared and distributed prior to budget preparation. The *Financial Plan* is the basis for many funding assumptions in the budget document.

The Budget Cycle. The City of Wichita utilizes a two-year, rotating budget cycle, meaning that revenue and expenditure budgets are prepared annually, by fund, and revised for the next two calendar years. In the process that was completed in August, 1999, the City Council approved a revised expenditure plan for the 1999 budget, adopted a 2000 budget and approved a 2001 budget.

In accordance with state law, the City submits the annual budget to the state for certification of funds that operate under a tax lid. If increased expenditure authority is needed in the revised budgets of the certifiable funds, the City Council must formally approve a revised budget for re-certification of the fund budget to the county.

While the City is developing its annual operating budget, a parallel process is taking place with respect to the capital improvement program (CIP). Shortly after the operating budget is adopted, the CIP is presented, outlining the City's ten-year program for planned capital projects and the means of financing sources for the planned projects.

Each year, the budget calendar follows this general schedule:

January – March. Revenues are projected and trends analyzed. Financial trends are developed and presented.

March – June. Financial assumptions and budget targets are communicated to Department Directors. Early input is received from the Citizen Participation Organizations. Operating and capital budgets are developed and reviewed by City Finance/Budget staff, and by the Budget Review Cabinet which consists of senior City staff. The City Manager conducts a final review, makes final changes, and prepares the budget policy message.

July. The City Manager's recommended operating budget is presented to the City Council.

July – August. Public hearings are held weekly on the operating budget and at special meetings and workshops.

City staff members respond to requests from the Citizen Participation Organization and other groups.

Mid August. After the publication of a 10 day notice of hearing in the official newspaper, a final hearing is held and the budget is formally adopted. After the notice of hearing has been published, the budgeted expenditures for each fund may not be increased, although other changes may be enacted.

August 25. Certification of the operating budget is made to the state of Kansas

Throughout August. The CIP is presented and comments are received.

Late summer. The City Manager's Proposed Capital Improvement Program is distributed.

Late summer or early fall. The Capital Improvement Program is presented to the City Council. (The Capital Improvement Program process is explained in greater detail in this document, in the section titled "Debt Service Fund and Capital Projects.")

Budget Revisions, Amendments, and Adjustments. A process to revise the adopted budget is started early in the operating year, concurrent with the development of the financial trends and projections, and the next year's operating budget. Revisions are based on the latest available information for revenue and expenditure estimates. In addition, the revisions ensure that the planned programs and service levels conform to any new City Council policies.

Budget Amendments. Under Kansas law, the City Council may amend an adopted budget during an operating year, if unforeseen circumstances create a need to increase the expenditure authority of a fund or budget. A ten-day official notice is published and a public hearing is held before the City Council.

Budget Adjustments. During the operating year, budget adjustments in amounts less than \$10,000 are made within funds administratively, as actual program costs develop. Budget adjustments greater than \$10,000, or adjustments that change the intent of a program expenditure are brought to the City Council for action.

State Laws and Accounting Practice. The operating budget process is governed by statutes of the State of Kansas. Among other provisions, the budget law states that cities must

✓ prepare annual, itemized budgets,

- ✓ account for the prior, current, and ensuing years in specific ways,
- ✓ stay within the tax limits for operating and debt funds,
- ✓ maintain only limited fund balances,
- ✓ hold a formal hearing, with appropriate publication and notice,
- ✓ complete the process and submit the budget by August 25, and
- ✓ not exceed adopted expenditure authority without approval through a formal amendment process.

The cash-basis law further provides that cities may not pay any obligation in excess of the amount of funds actually on hand in the treasury at the time for the indicated purpose.

Under state law, and according to accepted accounting practice, accounts of the City are organized by funds and groups of accounts. This means that

- ✓ each fund in fact is a budget and for accounting purposes has its own set of revenues and expenditures, which must balance,
- ✓ expenditures within each fund are limited to the specific purposes of that fund, and
- ✓ resources or revenues in excess of current expenditures are not available for expenditures in other funds.

The state statutes, as well as the Summary of Significant Accounting Policies and Description of Funds, are presented in the "Other Information" section following the fund summaries in this document.

Factors Influencing the Budget Development Process

The amount of available funding determines much of the budget process. Since future revenues cannot be known for certain, the framework for the whole budget development process, in effect, is built upon assumptions about the City's economic and financial future.

Revenue Projections. The first step in the budget development process is the projection of revenues by City staff. Trends in the performance of each revenue source are studied, and economic conditions and events that could alter the projections are considered.

By March of a new budget season, the best assumptions about many future revenue sources must be "put on the table." The revenue assumptions become the basis of each fund's projection in the *Financial Plan*.

Many factors affect revenues, including weather conditions (especially important for electric, gas and water utility

franchise taxes); legislative proposals related to state-shared revenues (local ad valorem tax reduction fund revenues, and motor vehicle and gas taxes); and local economic conditions (influencing closely the sales tax revenue stream as well as other sources). Economic indicators used in preparing the financial projections and budget are included in the "Other Information" section of this document.

Forecasting revenues is probably one of the most difficult tasks the City has in preparing a budget. If assumptions are too optimistic, policy makers may adopt programs that will not be supported by actual revenues in the coming year. If assumptions are too pessimistic, the budget process becomes constrained by the need to reduce programs and expenditures, or to find new revenue sources, including tax increases.

Assumptions are stated at the beginning of the General Fund presentation because of their importance in the budget process. The assumptions not only provide a benchmark for adjustments in the actual year of operation, but allow other interested citizens to challenge and improve on the assumptions as the budget is being reviewed.

Prior Choices. The budget process is shaped by many policy decisions and guidelines established by the City Council. For example, the Council has set a revenue reserve for the General Fund of not less than 5% and not more than 10% of annual revenues. The reserve is thought to be a prudent "savings account" for unforeseen emergencies or shortfalls caused by revenue declines.

Programs supported in the current operating budget represent prior Council commitments that must be continually evaluated to determine if the programs should be sustained, altered, reduced, or eliminated altogether.

Reallocations of personnel or equipment, and other modifications involving levels and methods of service delivery in ongoing programs must be undertaken with sensitivity to community preferences, in addition to minimizing disruption to all individuals involved in producing or receiving the service.

Debt obligations that have been assumed to pay for the City's streets and bridges, water and sewer systems, park system, and facilities are another prior choice important in the budget development process. Property tax support for debt service, as a matter of City Council policy, amounts to 10 mills, or roughly one-third of all property taxes paid by taxpaying residents in the City.

Closely related to decisions on new debt obligations are the ongoing costs assumed with new capital projects. Future

costs of heating and maintaining new buildings, and keeping roads and streets in good condition will add to the annual operating costs.

New Needs, Preferences, and Limitations. Finally, new needs and policy directions, as well as unexpected constraints, shape the over-all budget process. Among the most important on the agenda for the City have been public safety, and support for Community Policing.

Meeting unexpected costs of programs mandated by the federal and state governments, as well as providing for future employee compensation, continue to be critical issues. These and other policy matters are addressed in the City Manager's letter, or policy message, which focuses the City Council and citizens on the important decisions encompassed in the operating budget.